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Tisztelt Szerzőnk!

Ezúton szeretném tájékoztatni, hogy az Európai Tükör c. folyóirat angol nyelvű különszámához eljuttatott *Encoded Weakening of the European Integration – The EU-specific Vectors of Disorientation* c. tanulmányát megkaptuk. A lektorálási folyamat lezárultát követően pedig örömmel értesítem, hogy kéziratát a 2020-as évben a tanulmányok rovatban közölni fogjuk. Munkáját ezúttal is megköszönve további sok sikert és jó egészséget kívánunk!

Budapest, 2020. június 15.

A szerkesztőség nevében üdvözlettel:



Dr. Pásztor Szabolcs,
egyetemi docens, felelős szerkesztő

Az Európai Tükör Szerkesztősége

Encoded Weakening of the European Integration – The EU-specific Vectors of Disorientation

The paper attempts to contribute to the better understanding of how the centrifugal force towards weakening European integration has developed by identifying the EU-specific vectors of such gradient. We argue that disorientation is an echo effect of a complex amalgam of mutually intertwined and interrelated mechanisms embedded secularly into our European integration process. The paper also addresses whether secular stagnation adds to that centrifugal force. The paper finally outlines at least six potential principles of reversing the European disorientation by cultivating contingency governance.

Keywords: EU, integration, orientation, innovation, system, governance

Subject classification codes: E10, E60, F15, H10, H70, O10

1. Introduction

After a long period of shyness, economists in various internationally renowned institutions are drifting towards some sort of delusion of grandeur in terms of publishing ever-more optimistic economic outlooks in the developed world including the European Union (EU). Indeed, it seems that the year 2017 was by far the best since 2011 and forecasts have been continuously upwardly updated for 2018 due to unusually good growth conditions (e.g. in 2017, Euro area's growth rate was 2.4%, while it was 1.8% in Japan and 2,3% in the US).

Still, some moderation is in order even in the case of the EU owing to different systemic risks such as (i) the looming global trade war(s) between Washington and Beijing affecting the European economy as well; (ii) cumbersome completion of the EU single market due to outlining East-West EU splits together with Brexit (i.e. Germany treats complex economic relations with the UK and will be affected negatively by Brexit, so as the Central and Eastern European member states via the German situation); and last but not at all least, (iii) populism and euroscepticism with a habit of springing back again and again (e.g. by the Summer of 2018, the Italian coalition government earmarked with right-wing populism was set up; the Spanish prime minister was forced out after losing the no-confidence vote as an end result of the so-called Gürtel-corruption scandal); and last but not at all least (iv) governmental intentions and end results are not necessarily the same, as Milton Friedman (1977) illustrated, so the governance and the effectiveness of policies face huge challenges in our complex socio-economic innovation ecosystem (e.g. in 2018, the EU still has not achieved the aim of the Lisbon Agenda to make the EU the most dynamic and competitive knowledge-based economy in the world even though this was planned to be fulfilled by 2010¹). Thus, risks and challenges are here to stay in the EU, which still has the potential to continue its secular disorientation manifesting in losing orientation and weakening integration.

The present paper addresses the question of *what are the main EU-specific mechanisms behind the secular "disorientation" of the European Union*. With the deciphered vectors that are strongly intertwined and are creating ambiguous situations, *the encoded disorientative centrifugal trend* is revealed. In addition, we also argue that the secular stagnation phenomena adds to such disorientative trend in Europe *via* rising additional policy related uncertainties. Finally, some potential principles are formulated relevant for a governance working on reversing such disorientative trend.

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¹ *European Commission (2018) emphasises that EU should invest much more in the creation of the most innovative knowledge-based economy by being more ambitious in supporting breakthrough innovation.*

2. EU-specific vectors of disorientation

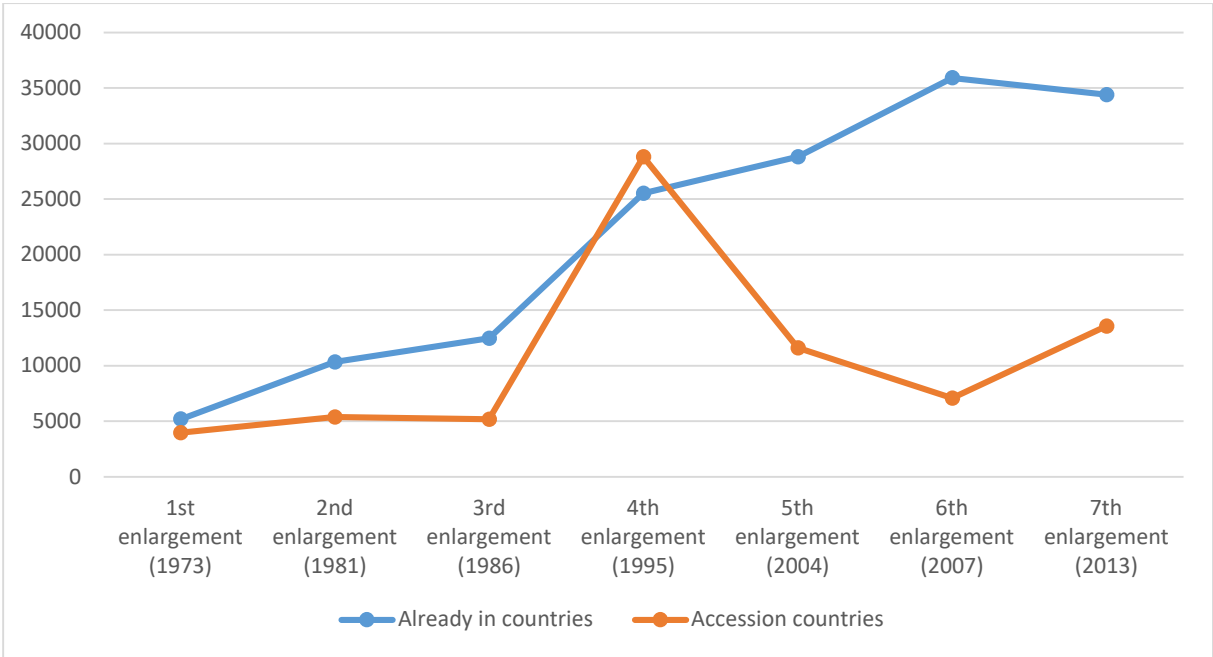
The following aspects and their dynamic configuration are taken into account: (1) disorientegrational conditions as a result of EU enlargement (i.e. differences in various dimensions); (2) internal processes within the EU in which the outlined differences appear; (3) external processes forming common challenges. All of the following aspects are strongly interlinked and intertwined and create ambiguous situations.

2.1 Disorientegrational conditions given by EU enlargement

It has been long recognised with regard to complex systems that one can never map and know with full certainty what the beginning conditions were, and even tiny differences in the conditions at the beginning can result in large non-linear changes and instabilities later on. EU enlargements have gradually encoded ever-more instability into the European integration process due to the differences manifesting in: (i) the levels of economic development of countries; and (ii) cultural backgrounds as well as mental attitudes of countries.

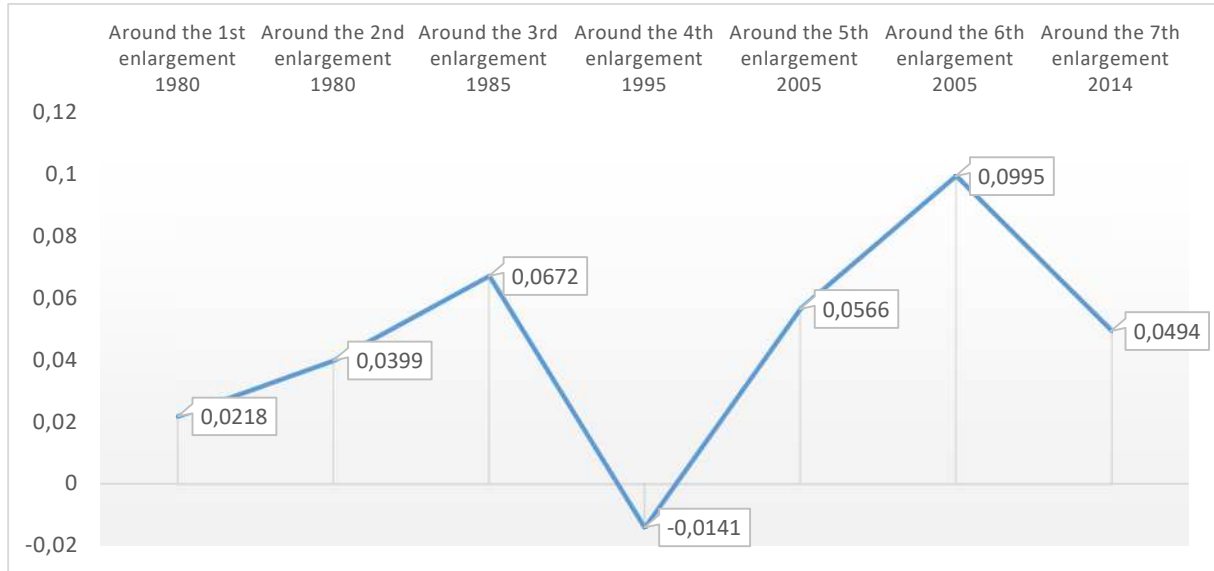
As far as the disparities between *already in* and *accession countries* in economic development levels are concerned, integration-theorists have a predilection to consider the differing beginning economic conditions as one of the singular point of references when explaining the causes of later shortcomings of the integration (e.g. problems of EMU). As it is discernible on *Chart 1*, along the course of enlargements, the gap between the average development levels of *already in* and *accession countries* measured in GDP per capita was growing except the occasion of 4th enlargement which also encoded even more gaping gap later on (e.g. accession countries reached the average development levels of already in countries along the seven enlargements as follows: 76%, 52%, 41%, 113%, 40%, 19%, and 39%, respectively).

Chart 1. The economic development gap between already in and accession countries (% GDP per capita, current US\$)



Source: own compilation based on World Development Indicators, World Bank.

Chart 2. The human development gap between already in and accession countries (HDI)



Note: HDI is on a range from 0 to 1. Due to the lack of data, the following years were used to cover enlargement periods: 1980 (1st and 2nd enlargements), 1985 (3rd and 4th enlargements), 2005 (5th and 6th enlargements), and 2014 for the Croatian accession.

Source: data stem from the United Nations Development Programme, Human Development Reports.

If one looks at the average discrepancies in Human Development Index (HDI)² along the enlargement process between *already in* and *accession countries*, it can be stressed that relatively huge average differences were prevalent except the 1st and 4th enlargements (Chart 2).

Despite the unimpeachable and well-documented fact on disparities (Seers et al. 1979, 1980, 1982; Magone et al. 2016), we argue that the culprit was also related to the lack of internal national commitment to stimulate structural change in line with the requirements of sustainable growth and development after the accession. Further enlargements limited the space for further integration, in other words, *European integration was again and again diluted but not firmly deepened*. In some cases, with accession (including the access to the European Structural and Investment Funds) funds proved to be benevolent auxiliary instruments to enlightened national public policy geared towards structural change (e.g. shifting to knowledge economy in Denmark, Finland). In other cases the European Union's essential promise has become 'money' rather than the peaceful milieu being conducive to human flourishing and money was subjected to be absorbed and allocated inefficiently by malfunctioning institutions in some cases, hence contributing to the conversation of lower international competitiveness (e.g. Portugal, Greece).³ It is hardly by chance that the particularly strong supporter of the Single Market were mostly the peripheral countries by the end of 1980s (e.g. Italy, Spain, Greece, Portugal and Ireland) and the support for further enlargement was to some extent evaporated in case of old member states by 2005.⁴ Success after accession always depended and still relies on good governance with efficient institutional architecture embedded into the

² HDI is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

³ Finland could transform itself to be a competitive knowledge economy, while Portugal was mostly unable to orchestrate such change successfully because of a mixture of internal phenomena: state captured by welfare clientele led to excessive social and wage policy which offered a fertile ground for worsening productivity as well as income inequality levels over decades and unsustainable public finances. See: Kovács (2015).

⁴ See: Eurobarometer No. 34, European Commission (1990:31). By 2005, the support for further enlargement increased only in Central and Eastern European Member States. European Commission (2005:30).

wider innovation eco-system. An important implication is that addressing structural weaknesses at national levels cannot be bypassed even by creating fiscal federalism at EU level with its transfer system.⁵

Let us add immediately that the differences, at the same time, provided the magnetic force of further integration, while *inertia was also observable in certain enlargements*. The accession of Greece in 1981 was an extraordinarily glaring example of dominating political interest over economic rationale. Inertia in the 2nd and 3rd enlargements were encoded mainly because (i) French had become committed to initiating the Greek accession in case of a democratic transition; (ii) and, what is more, there was a threat of revitalizing communistic ideas in Italy, Portugal and Spain in case of the potential rejection of Greece as cradle of Periclean democracy. As a result of such uncertainty, the European Community had to prefer their accession as a reward for democratization, which was, a value-congruent political decision.⁶ Still, by now and in the shadow of the present Eurozone crisis related to Greece, the Greek accession is widely considered as a mistake⁷, whereas more crucial causes arose later in time.⁸ This is because voters tend to evaluate a policy decision in retrospect on the basis whether it has led to 'good' or 'bad' outcomes instead of considering whether the given decision was rationale and logical on the basis of available information and knowledge in the given historical context when the decision was made. This also lends support to the impression that disorientation narrative is here in town.

As far as the *differences in cultural backgrounds and mental attitudes* of countries are concerned, beyond the trivial and usual suspect (e.g. linguistic difference which explains the most the less than expected labour mobility within the EU⁹), one must recognise that the harmony criteria between *formal (laws, regulation, constitution etc.) and informal (norms, culture etc.) institutions* does not only apply on national level to enhance growth and socio-economic development, but also on supranational level in supporting sustainable European integration. The presence of this harmony would mean that EU integration has national politics not biased extremely towards the aim at evading the violation of their country's cultural norms. With the lack of political union, this is only a phantasmagoria in the context of the EU and, as Guiso et al. (2016) demonstrate, the development of efficient policies along the interaction of countries can fall short and get impaired. EU countries greatly vary across institutional quality (*Chart 3*). Countries with higher institutional quality appears to be less reliant on other EU countries in terms of product export (e.g. Finland, Sweden, Germany etc.) because they are typically more innovative and have deeper embeddedness into the global economy. *GROUP 2* countries tend to bear harmony between formal and informal institutions in a more vigorous way. As *Chart 4* depicts, lower institutional quality is mainly associated with lower economic integration in case of Mediterranean peripheral countries (e.g. Portugal, Greece, Italy etc.) having structural backlog (i.e. low share of technology driven industries, high share of labour intensive industries as Aiginger (2013:42) underscored).¹⁰

⁵ One must not forget the fact that even the theoretical and empirical literature on fiscal federalism conveys that national governance plays a key role in it, and this is the way the system offers 'laboratory' to elaborate better and more efficient policies in parallel via trial and error, i.e. more innovation freedom over time. See the *Handbook of Fiscal Federalism*, by Ahmad et al. (2006). Still, fiscal federalism as the highest form of decentralised fiscal governance has uncertainties over how does it affect economic growth and development (Baskaran et al. 2016). It is now empirically justified that income inequality has been significantly rising since the 1970s even in Germany with its federal structure having the famous *Finanzausgleich* mechanism. See the book written by the president of the *Deutsches Institut für Wirtschaftsforschung*, Fratzscher (2016).

⁶ Spain had submitted its application to the European Community already in 1970, however, it did not receive an answer for a long period of time due to the existence of undemocratic governmental institutions in Spain. It demanded the accession again in 1977. After lengthy bargaining and discussions, the *Treaty of Accession* was signed only in 1985. On the threat of communist comeback, see: Seers (1982:6-7).

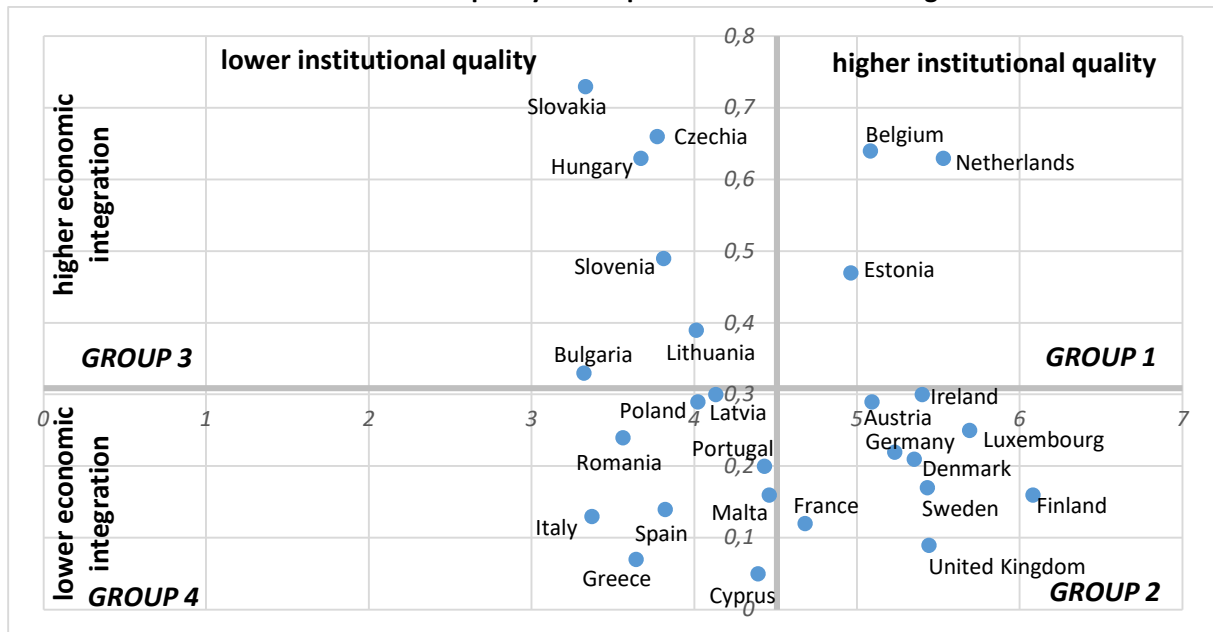
⁷ For a long time, studies on evaluating the costs and benefits of EU enlargements accentuated that enlargements were more or less beneficial for core, more developed countries – even for the UK, see Crafts (2015) – while they were more costly for poorer, peripheral countries who absorbed enormous amount of EU Funds over decades (e.g. Ederveen et al. 2006). Still, funds supported the catching up process especially in case of Spain and Portugal (OECD, 1991). Recent studies emphasise that EU membership have significantly outweighed the costs except the case of Greece, see for instance Campos et al. (2014).

⁸ For a systemic and comprehensive account on the Greek development with EU funds, see: Liargovas et al. (2015).

⁹ See: Andor (2014) or Chakrabarti and Sengupta (2015).

¹⁰ Economic growth of Greece (and together with that the possibility of reducing the debt ratio) is mainly based on sectors (tourism, catering trade) whose international competitiveness can be considered low (even compared to other periphery

Chart 3. Institutional quality and export-based economic integration



Note: horizontal axis refers to the score of countries in institutional quality derived from the World Economic Forum, Global Competitiveness Yearbook 2014-2015. Vertical axis refers to the degree of economic integration in terms of export to EU countries in percentage of GDP. The intersection represents the averages of the two indicators.

Source: World Economic Forum, Global Competitiveness Yearbook 2014-2015, Eurostat.

Another equally important aspect of informal institutional differences is the cross-cultural psychology culture. For instance, let us take the degree of individualism and that of collectivism within the cultural matrices of countries. In this respect, Gorodnichenko and Roland (2012) found a strong causal link from individualism to innovation and long run growth. It is not surprising that GROUP 1 and GROUP 2 countries have higher average scores on individualism compared to GROUP 3 and GROUP 4 (the averages are as follows: 71, 69, 51, and 51, respectively).¹¹ This cleavage seems to be able to encode instability into the European integration process simply because more collectivist countries are likely to prefer the unsustainable extension of welfare states – as the cases of Portugal and Greece have shown – which, in turn, can ultimately stifle grassroots innovation. Bearing in mind that the degree of individualism might also be a good proxy of the *propensity of people to act in solidarity* (i.e. to take sacrifices at the benefit of others in the EU in time of crises *via* cooperation), from a broader perspective, technological development induced individualism¹² can result in higher focus on status-seeking at the expense of caring relationships (collaborations), which is equivalent with a trend towards more intergovernmentalism rather than to cooperation in creating federalist institutional architecture in the context of the European Union. This can even shed light on such disorientegrational force like the United Kingdom's vote in June 2016 to leave the EU, which traditionally shows one of the highest degrees of individualism. Disorientation thus appears to be a culturally strongly influenced phenomena as well in the European integration.

countries, e.g. Spain). See: World Economic Forum, *Travel and Tourism Competitiveness Report 2015*. Greece is only the 31st among the 141 countries in the ranking, while Spain is the 1st, Italy is the 8th and Portugal is the 15th. Available: <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/> Accessed on: 01.06.2018

¹¹ These are the Hofstede scores of individualism. Individualism is defined as a preference for a loosely-knit social framework in which individuals are expected to take care of only themselves and their immediate families. Available: <https://geert-hofstede.com> Accessed on: 01.06.2018

¹² A paper by Snower and Bosworth (2016) demonstrates how technological development (e.g. ICT gives rise to flexible work pattern, increasing focus on individualistic traits etc.) induces more individualism which also has negative impetus on societal welfare in the form of decreasing caring activities.

2.2 Internal processes within the EU in which the outlined differences appear

The indicated different conditions with, of course, a variety of national interests along the course of deepening and widening led to more and more conspicuous differentiations especially since the 1990s.¹³ The most obvious examples of such differentiations were mirrored in (1) the Schengen Area; (2) and the Eurozone architecture. Albeit, differentiation was necessary and inevitable to accommodate the increasing heterogeneity with enlargements; differentiation created side-effects that have been developing in commonly unnoticed increments by manifesting the so-called 'creeping normalcy' for a relatively long period of time, up to the 2008 financial and economic turmoil, the ensuing Eurozone crisis and migration as well as refugee crisis.

Concerning *the Schengen Area* which reifies the free movement of people within the EU, the Agreement came into force in 1995 and now 22 out of 28 EU Member States are involved in it together with the following participating countries Iceland, Lichtenstein, Norway, and Switzerland. By eliminating internal border controls and providing passport-free movement of people along the series of enlargements, on the one hand, and by having ineffective external border control management on the other hand, the European integration encoded negative side effects of Schengen as well. These side-effects have occurred dynamically on at least two fronts: (i) increasing tensions about immigration; (ii) and controversial understanding over the costs and benefits of EU-migrants.

As for the rising tensions about immigration are concerned, one can assert that the social integration of immigrants has been beset with pressing difficulties. First, generations of immigrants could not effectively be integrated into the European societies by contributing to the co-existence of communities along ethnic and religious lines. The prime example of this was the French riots of 2005 that proved what was officially admitted later on by high-level representatives of the republic: the soft integration *à la française* failed (Moran – Waddington, 2016). This was a clear harbinger of the evolvement of critical instabilities through secessionism in core and northern European countries. By now, riots have become a European phenomenon.¹⁴ Second, with the Eastern enlargement core countries became an important attractor of Romanian and Bulgarian Romani by vitiating the local support of the EU. This led to effective tensions and acts. For example, the series of fierce confrontations between Romani and French police in 2010 resulted in a divisive Presidential decision which called for spectacular expulsion of Romani people from France and the demolition of illegal Roma camps. Since 2008, similar crackdowns occurred in Italy on illegal immigrants, mostly Roma people from Romania being responsible for increasing crime. As a corollary, voices were echoed over creating more stringent policies on immigration by refining the Schengen Agreement. In 2011, Italy and France called for a strict review of the Agreement in fearing the influx of North African refugees. Of course, these type of claims for a stricter Agreement referred to a temporary (short time) intervention by not reversing the integration process (e.g. France initiated border control after the 2005 London tube bombings, Portugal did the same during the Euro 2004 tournament). But, the erosion of Schengen has come to the forefront in a more dedicated way, on the one hand, with the enormous inflow of third country immigrants since the crisis in Syria and conflict elsewhere triggered approximately 1.8 million irregular border crossings at Europe's external borders in 2015 alone.¹⁵ On the other hand, terrorist attacks (in 2015: Paris; and on Paris to Amsterdam express; in 2016: Brussels; truck attack in Nice, France; Christmas market attack in Berlin; in 2017: Manchester Arena bombing; bridge attack in London; attacks in Barcelona) righteously rekindled the need to revise and tighten the Schengen Agreement by bearing in mind that suburban riots can offer a fertile ground for terrorists. With the request for elaborating further the Schengen Agreement by keeping abreast of our gloomy times due to unsustainable immigrant patterns and

¹³ For instance, differentiation can be captured by looking at treaty articles. Schimmelfennig and Winzen (2016) pointed out that such differentiation became more visible since the 1990s. While differentiation in treaty articles was infinitesimally low in the enlargements of 1970s and 1980s, its level rose with further enlargements (especially with the accession of Central and Eastern European countries).

¹⁴ Riots also spread to other countries like Sweden and Germany afterwards. By 2016, several exclusion areas, that is to say 'no-go zones', have been formed in Sweden where the riots erupted have also proved the poor integration of immigrants.

¹⁵ European Commission (2016)

imminent security issues, and all the more with the effective practice of some Schengen-area states of reintroducing border controls¹⁶ and even extending them¹⁷, it not only casts shadows on the future of the Schengen Agreement, but also illustrates that the compass of the EU integration points to disorientegration.

This tendency was partly fuelled by uncertainty over the socio-economic costs and benefits of EU-migrants leading to increasing negative perceptions over immigration in general throughout Europe. On the one hand, numerous studies have tried to measure the economic impact (financial dimension) of EU-migrants on native people and the economy as a whole in the host country by emphasising that immigrants can be net contributors to the host country's wealth-enhancement.¹⁸ On the other hand, the picture tends to be blurred once the spectrum of measurement is widened by taking into account political, social, cultural, humanitarian, and all other sorts of benefits and costs. Consequently, the perceptions on immigration have been more or less negative throughout the EU which culminates in "[...] the negative cycle of hostility towards migration" (BEPA, 2006:4). For example, seductive and often pejorative terminologies used in media (bogus asylum seekers, welfare tourism, welfare scroungers) and the way the media portrays the migration issue exert to a large extent influence on public perceptions. Jacomella (2010) sensitively documented that press narrative plays a crucial role in forming public perceptions in Italy, Germany and the United Kingdom. Moreover, by surveying 33 developing and developed countries (including for example Belgium, France, Germany, Italy, and the United Kingdom) on misperceptions about migration, IPSOS showed that citizens generally overestimate the share of immigrants in their respective countries (e.g. the average guess of citizens surveyed in Germany and Belgium was more than two times higher than the actual shares).¹⁹ Apparently, as Amartya Sen pointed out, free and independent media takes part in the *formation of values* (Sen, 2010:336). Good governance and adequately working checks and balances together with impartial media are therefore the necessary preconditions of more realistic public perceptions over migration otherwise political populism and seductive press narrative can breed the concerns over insecurity as well as job losses into the feeling of the public. This in turn reinforces disorientegrational forces.

As far as the *differentiation reflecting in the Eurozone architecture* is concerned, it mainly manifested in a core-periphery context due to its inherent anomalies leading to sovereign debt crisis and ultimately to Eurozone crisis. By the creation of EMU in a unique way, i.e. lifting the monetary policy at supranational level and leaving fiscal policies in the confines of national economic policy engineering, European policymakers have lost the general yardstick given by the experiences of long-lastingly performing monetary unions having fiscal unions as well (e.g. United States, Canada, Switzerland). Without a fiscal union, we do not have the opportunity to enhance the EMU on the basis of other similar unions because they do not exist. Nevertheless, much attention has been devoted to investigate whether the EMU framework has affected positively or negatively the fiscal discipline of member states. Although the picture is mixed, the fundamental role of internal commitment to a prudent public finance without attributing significant role to the EMU rules (Beetsma et al. 2009) is often underscored. Against this background, the EMU framework should have entailed rigorous fiscal adjustments and structural reforms for example in

¹⁶ In June 2018, Germany and Austria started to join their police forces to stop illegal migration.

¹⁷ The Special Eurobarometer of the European Parliament conducted in April 2016 revealed that 66% of surveyed citizens of 28 EU Member States consider EU action to be insufficient and 74% would like to see the EU take more action. Or on the protection of external borders, 61% consider EU action to be insufficient and 71% would like to see the EU take more action. See: <http://www.europarl.europa.eu/atyourservice/en/20160623PVL00111/Europeans-in-2016-Perceptions-and-expectations-fight-against-terrorism-and-radicalisation> Accessed on: 01.06.2018. On how the current circumstances cast shadow on Schengen, see the Report of the European Commission against Racism and Intolerance, ECRI (2016). Additionally, the proposed draft EU budget for 2017 submitted by the European Commission also aims at bettering the management of EU's external borders and addressing the refugee challenges inside and outside the EU. See: http://reliefweb.int/sites/reliefweb.int/files/resources/IP-16-2347_EN.pdf Accessed on: 01.06.2018

¹⁸ In case of 20 OECD countries, see the economic benefits in Battisti et al. (2014). Dustmann and Frattini (2013) presented evidence that immigrants who arrived in the United Kingdom since 2000 have contributed far more in taxes than they have received in benefits. Portes (2015) refutes the assumption that migrants in the UK are likely to be welfare seeking by showing that migrants are underrepresented in benefit claimants. Foged and Peri (2015) showed that immigration had positive effects on native unskilled wages, employment and occupational mobility in Denmark between 2001 and 2008.

¹⁹ See the survey: <https://www.ipsos-mori.com/Assets/Docs/Polls/ipsos-perils-of-perception-charts-2015.pdf> Accessed on: 01.06.2018

case of Greece or Portugal if for no other reason than that the exchange regime tool became no longer applicable at national levels. The reason why it did not happen can be found in the shortcomings of the EMU framework. What we have learnt from the history of monetary unions having fiscal unions at the same time is at least the fact that “no bail-out” clause should be stipulated and credibly pursued (Bordo et al. 2011). Albeit the Maastricht Treaty seemingly guaranteed the “no bail-out” rule on member state debts by EU governance and the ECB, the credibility of this rule has perceptibly evaporated as the 2008 global crisis has summoned the techniques of providing rescue packages and purchasing sovereign debt of member states that are in extreme quagmire. This type of interventionism can be seen as a logical repercussion of not having a fiscal union. Historically, with a centralised and powerful fiscal policy the union is able to operate an effective transfer system which can provide a supportive hand in dampening problems arising at subnational governments affected more seriously. In the absence of a fiscal union and thus that of effective longer-run constraints, the propensity at member states level to run deficits and public debts was inherently encoded in the EMU framework. Put it differently, the phenomena of softening rules such as that of the Stability and Growth Pact (SGP) is often translated as a movement towards a system offering an increased fiscal room for manoeuvre at national level (*Bassetto – Lepetyuk, 2007*). Let us recall to the fact that the SGP was incrementally softened since its establishment.²⁰ Since the original intellectual backing of the SGP was linked to a proposal of Theo Weigel about “Stability Pact”, and since the pact was softened up – at German and French requests – by incorporating the aspect of growth and leaving behind the mechanism of automatic sanctions, this tendency is clearly discernible. Not to mention the SGP’s reform in 2005 that can also be assessed as a step toward higher flexibility (*Heipertz – Verdun, 2010*). Due to these developments, SGP has to a large extent lost its role to be an external coercive power in forcing member states to resort to permanent fiscal adjustments and reforms in the interest of EMU rules. Moreover, more rules and sanctions added to the SGP will by no means make the pact more useful, simply because the former version of SGP with numerical rules has completely emptied (see: *Caselli, 2008*).

Apart from the fact that softening the SGP was equal with the worsening credibility, particularly by the early 2000s when two non-complying countries (Germany, France) were not sanctioned, *this framework acted as a mechanism which was on the one hand benefiting for core-countries* like Germany and France, and it was counter-incentive for countries like Portugal in implementing necessary fiscal adjustments and structural reforms. Since the indebtedness in southern Europe, helped by Germany and France, fostered their imports, *a contrario*, it also triggered the German exports; and thus this system appeared to be a desirable one. Nonetheless, the surplus cash stemming from the strengthening exports was being to a large extent re-allocated into the southern countries in form of loans. The reason why the EMU did not serve completely as an external enforcement framework is the fact that the German and French governments would have blocked the flow of increasingly risky loans to the peripheral countries, but their interest groups would not have left it without a word because this would have led to additional economic slowdown determined by a decline in demand and workforce layoffs.²¹ For this reason, the creditor countries were not interested in breaking up this *status quo* and therefore closed one of their eyes to the fiscal indiscipline of the periphery for a relatively long time. The institutional and implementation related differentiation in EMU framework heightened the *hedonic editing* of other member states. It refers to a situation when people are to convince themselves about that their earlier failure does not really matter.²² Its precondition is the *missing fear from fear*. Having in mind the consequences of non-compliance which can easily direct toward the misguided feeling that non-complying the external rules does not really matter, hence fiscal

²⁰ It was sensitively illustrated by Fischer et al. (2006). For a quantitatively assessed SGP-approach see Monperrus-Veroni and Saraceno (2005) who pointed out its shortcomings to trigger more fiscal discipline. For more on SGP’s shortcomings see Wyplosz (2002) and Buti et al. (2003).

²¹ Considering the fact that the German economy underwent a relatively huge slowdown in 2000-2003 (according to Eurostat, the economic growth was 3.1% in 2000, in contrast, by 2003 it was close to stagnation) would also be instructive in understanding that the scenario about blocking the above mentioned activity has a strong counter-incentive. Another perhaps equally telling momentum is the fact that the current account of all credited peripheral countries has deteriorated right after their accession into the euro area, except Germany whose current account deficit changed rapidly into an increasing surplus.

²² Individuals tend to strategically manipulate their memory to feel less guilty. This was confirmed by experimental economics literature too, see: Li (2012).

deficit can soar. This hedonic editing phenomenon was also on the card by serving as a counter-incentive to be committed to stringent fiscal consolidations and structural reforms by encoding the weakening of the entire EU.²³ The situation was worsened by the time the 2008 financial and economic crisis and its ensuing Eurozone debt crisis hit in. The inefficient fiscal and monetary stimuli, then the fiscal austerity programmes geared to curb unsustainable indebtedness have led to further erosion of trust in the EU as the economic performance has remained rather weak.²⁴ Still, with the astonishing institutional and organisational innovations in the European economic governance (e.g. introduction of six-pack and two-pack, the European Semester, the Fiscal Compact, the Euro Plus Pact, and establishing the roadmap towards Banking Union) the shift from intergovernmental solutions towards EU-level approaches has gained a historical momentum.

2.3 External processes forming common challenges

As enlargements and deepening progressed, issues to be addressed and tackled have become more and more intertwined and opaque causing an intrinsic tendency towards non-decisions, endless-discussions and dissents by planting the seeds of governance deficit at EU level in the perceptions of the wider European public. This was confirmed by the Special Eurobarometer of the European Parliament conducted in April 2016. According to the survey, Europeans feel that EU action is largely insufficient in most of the fifteen areas suggested to them, and that a massive majority of citizens would like the EU to intervene more than at present in these areas. The latter one contributed to the widely documented democratic deficit and, of course, EU scepticism.

Importantly, in addition to the volatile trust level in the EU given by the enlargement process, the crisis makes the case worse together with newly arising external challenging processes. Without attempting to be exhaustive, we just name a few such as the Russian-Ukrainian military conflict interspersed with the Annexation of Crimea; conflicts in Libya and Syria triggering migration and refugee crises²⁵; increasing terrorism activity. What is extremely important is that external common challenges are also reinforcing and heightening internal challenges either like the exit-prone behaviour in more and more EU Member States such as the United Kingdom, the Netherlands, France, Sweden, and even in case of Germany²⁶, or like the emergence of not necessarily EU-conform (potentially anti-democratic) political behaviour in certain countries (e.g. Hungary and Poland).²⁷ The smouldering decay of trust in the EU and in the integration process is merely a justification of the empirical finding that recession and turbulent times hurt more than boom can help when it comes to evaluating subjective well-being, which in turn affects the attitudes towards the EU as well.²⁸

Eventually, one may lead to the conclusion that European integration has been losing orientation and facing weakening commitment to integration not only because of anomalies, as the prevailing literature suggests, but because of inbuilt long-term processes in the path of the integration. Disorientation is an echo effect of a complex amalgam of mutually intertwined and interrelated mechanisms (general- and EU-

²³ Kovács (2016) illustrated it in case of Hungary.

²⁴ Not to mention the current brewing storm over the unfolding Italian banking crisis since February 2016.

²⁵ This new wave of movement of people was mainly encoded into our world as a result of the hegemonic battles between the US and Russia even during the cold war and afterwards. As Sachs (2016) shows, their conflicts led to instable states prone to disintegration and triggering the fleeing mass of people. For example, for the US, the war in Syria is a continuation of the plan for global US hegemony launched by Defense Secretary and Under Secretary at the Cold War's end. Tackling the migration crisis requires collective actions in the spirit of faith community not only in case of refugees but also in case of climate-change-related migrants. According to estimates, between 25 million to one billion people might be displaced by climate change up to 2050 (IOM, 2009:43).

²⁶ For the German case, see: <http://www.express.co.uk/news/world/684282/Germany-Eu-referendum-Dexit-Brexit-Angela-Merkel-european-union> Accessed on: 01.06.2018

²⁷ Kornai (2015) documented the U-turn of Hungary thereby it has become a post-communist autocracy. Kovács (2016) called the system as a Weberian plebiscitary leadership democracy which declared an economic freedom war against Brussels, against foreign multinationals by injecting additional uncertainties into the innovation ecosystem. In case of Poland, recent far-reaching changes to its legal and institutional framework directly threaten human rights and undermine the rule of law, as the report prepared by the Council of Europe (2016) shows.

²⁸ See De Neve et al. (2015)

specific vectors) embedded secularly into our European integration process. All of the described vectors, being strongly interlinked and intertwined, are *endogenously forming a centrifugal force to disorientation and creating ambiguous situations*. In the following we address whether the so-called secular stagnation adds to that centrifugal force and on why a more transformative and catalytic policy mix is needed.

3. The role of secular stagnation in disorientation

A new stream of economic literature focuses on the issue of secular stagnation meaning the long-lasting withering productivity, thus that of innovation performance in the advanced world since the 1970s (Cowen, 2011; Gordon, 2012; Teulings – Baldwin, 2014; Eichengreen et al. 2015).²⁹ Secular stagnation thus means the perceptible deceleration of growth engine of which main constituents do not seem to have so much contribution to growth compared to few decades ago. Importantly, secular stagnation is associated with increasing uncertainties – unknown risks driving the increasing propensity to save and the declining propensity to invest – leading to increasing instability of the socio-economic system. Even the spillover effects can be much larger in time of secular stagnation (Eggertsson et al. 2016) contributing to non-linear changes of uncertainties over the future. There is a growing body of evidence that increases in uncertainty are mainly associated with protracted negative impetus on economic activity (Baker et al. 2013; Bachmann et al. 2013). Increasing uncertainty undermines for instance the capacity of the state to fulfil its developmental function since the sustainability of the welfare state becomes questionable, hence it reinforces macroeconomic instability.

Omitting the role of secular stagnation from our analysis would be equal to joining the club of *terribles simplificateurs* who are inclined to apply merely a reductive vision of progress. At this point, one must address the issue whether secular stagnation might be a systemic feature of our complex socio-economic innovation-ecosystem by calling for new policy initiatives.

We argue that *secular stagnation is likely to be an autochthon phenomenon* in our new techno-economic paradigm having specific features directing towards lowering productivity (which, of course, is getting to be harder and harder to be measured). We can claim with reasonable certainty that the Lundvallian (2002) term of “learning economy” is a resulting condition of the new techno-economic paradigm (ICT-based, service sector dominant) requiring higher skills and quality as well as permanent knowledge-development. This new paradigm places innovation and its main barriers and drivers under a different light. As we indicated in our earlier paper (European Commission, 2011:27), studying innovation in services is becoming more and more important as the world has now arrived at a new techno-economic paradigm, exhaustively described by Perez (2009). This concept converges on the thinking of Kondratiev (1935) and Rennstich (2002), who claim that, beginning with the Industrial Revolution in England at the very end of the 18th century, the world economy has experienced technological revolutions every 40-60 years. Each technological revolution employs new or relatively new technologies *via* the method of smart combination. The *new ICT-based techno-economic paradigm* that emerged since the midst of the 1970s not only provoked profound changes in the production process, but also tailored them to a *more service-oriented economy*.³⁰ What is especially important from our viewpoint is that, as services’ dominance increases with the sophistication of services innovation, the labour productivity becomes significantly lower than in the manufacturing sector. Statistically, the economy has to a large extent become weightless in the sense that the intangible assets (ideas, knowledge, social relations etc.), which are so cumbersome to measure, have started to dominate.³¹ Additionally, there is an observable correlation between the secularly (since the 1970s) rising political instability and declining economic performance in the advanced world

²⁹ Robert J. Gordon emphasises that modern innovations are not so impressive and the information revolution does not seem to be so conducive to economic development and growth (measured in GDP per capita) compared to earlier waves of innovation, such as the internal combustion engine, electrification or the telephone. See: Gordon (2012).

³⁰ Around 67% of global value-added is in services in the developed and developing economies (see World Bank data). In terms of employment, only the service sector has exhibited a permanent rise since 1999, reaching 70% of total employment in the EU in 2009 (European Commission, 2010).

³¹ See: Haskel and Westlake (2018).

(including the EU). And the declining economic performance corresponds with the increasing dominance of services sectors at the expense of manufacturing.³² As a corollary, *increasing 'servitization' of the innovation ecosystem (i.e. the increasing importance of intangibles) entailed with lowering measurable productivity by engendering uncertainties over the effectiveness of policies and governance* both at national and EU level as well. This is not primarily positively conducive to the ethos of the EU integration.³³

One should also bear in mind that the new techno-economic paradigm offers more qualitative outcomes that are harder to be measured adequately in numerical terms. Although inputs to innovation, by almost every measure, have been rising significantly over the past century, output, as measured by the trend growth rate of multifactor productivity, has been flat (*Brynjolfsson, 2011*). Still, the added value of ICT revolution and its ongoing transformative power – together with nowadays innovations and R&D activities – result in more qualitative impact what is missed from aggregate statistics like GDP per capita and its derivatives like productivity.³⁴ Without a paradigm shift in our mind-set which is fiendishly and exclusively concentrating on the quantifiable aspects of our progress, a self-reinforcing *disorientegrative cycle* seems to be appearing in Europe. Our current mind-set indicates that the problem is not the lack of policies tailored to increase welfare and competitiveness, but their effectiveness and achievements seem to be questionable and inappropriate since long-term decline in productivity growth and innovativeness is observable.³⁵ It *fuels policy uncertainty which reduces innovation/investment activity*. As the Nobel Laureate Michael Spence argued political instability undermines the evolvement of comprehensive, responsive, and coherent economic-policy agenda (*Spence, 2016*). The resulting mixture of mostly consumption-driven low growth, high unemployment, and rising inequality aggravates further political instability and fragmentation, which makes the officials' capacity to implement effective economic policies more cumbersome.

Finally, it is worth noting that the slowdown of productivity was more abrupt in Europe than for example in the US, however (*Crafts – Toniolo, 2010*). It sheds light at least on two things. First, the US complex innovation ecosystem has been performing relatively better compared to Europe. Second, the European aspect of secular stagnation implies that some doubts are in order regarding the effectiveness of economic policy in the past decades. For instance, despite the overregulation and excessive taxation, the European Union seems to have been falling short in decreasing the poverty and social exclusion since the approval of its Europe2020 strategy. Nowadays, approximately 6.9 million people are deeply poor in the European Union (living on \$ 4 a day or less) which is nearly the population of Sweden and Ireland combined or the population of Bulgaria alone.³⁶ Between 2008 and 2014, the number of people at risk of poverty or social exclusion has grown by 6 million, a trend being diametrically against the target of Europe2020 to lifting at least 20 million people out of poverty and social exclusion by 2020 compared with 2008. It points to the pronounced impoverishment the EU has been facing today which undermines trust and confidence and offers ground for nationalism, EU-scepticism.³⁷ Evidence suggests that Europe needs to find new form

³² See Brady (2016) on globalization and political instability.

³³ Credit consumerism is here, especially in Italy where the share of non-performing loans has been growing the fastest pace by calling for ECB's intervention in a form of buying those assets. Nevertheless, the demand side of the economy, to pull a healthier borrowing from banks to SMEs and households, still remains unresolved in a country having two lost decades in terms of productivity (innovation).

³⁴ This paradigm is mainly dominated by services (as well as 'servitization of products') that improve primarily the quality of life rather than promise a large productivity stimulator effect in a classical way as happened in the product sector decades before. Consequently, measuring productivity and GDP via a traditional methodology does not fully capture the well-being enhancing mechanisms of today's innovations in the advanced world, hence the impression about a downward trend in the growth of productivity is heightened. See *unmeasured data-driven consumption in Mandel (2012)*, *the non-measured part of our life in Mokyr (2014)*, and *the limits of GDP (e.g. as ironically called Gross Deceptive Product) and productivity to capture welfare in Aepfel (2015)*.

³⁵ Halmai (2017) also raised the question „Is it possible to have an efficient economic policy coordination in the current context?“ (Halmai, 2017:15).

³⁶ Data stem from the World Bank.

³⁷ See: Eurostat (2016a:9). In the spirit of 'always look on the bright side of life', the European sluggishness in terms of innovation has its own merit. As the *World Inequality Report 2018*, prepared by the World Inequality Lab, revealed, income inequality has been rising both in Western Europe and the United States. Still, the European rise has been much smaller compared to that of the US. Europe and the United States had similar levels of inequality in 1980. While the top 1% income

of growth as the Whitworth cannon of poverty eradication as well. This means that more transformative and catalytic policies are required to meet technological and socio-economic missions due to the fact that our world economy has become ever more complex, hence the explanatory power of our theories and earlier empiricism have become strongly worn.³⁸ All in all, secular stagnation phenomena adds to the increasing disorientegrative force in Europe *via* rising additional policy related uncertainties.

4. Conclusions

In this contribution we have deciphered the dynamic configuration of processes lurking behind the European disorientegrative phenomena. Despite the consensual rhetoric on disorientegrative which handles it as a relatively new-fangled phenomenon, with a veneer of a complex approach, EU-specific vectors have been explored that play a key role in directing towards disorientegrative. The EU-specific vectors (*disorientegrative conditions as a result of EU enlargement; internal processes within the EU in which the outlined differences appear; and external processes forming common challenges*) are strongly intertwined and create ambiguous situations by forming a disorientegrative centrifugal trend. In addition, we have also underlined that the secular stagnation phenomena adds to such disorientegrative trend in Europe *via* rising additional policy related uncertainties.

To the extent that there is no common (EU-level) reaction, to such an extent differing national reactions to certain challenges are growing. And *vice-versa*, to the extent that national solutions emerge, to that extent there will be no common solution (collective action). This leads to a contingent situation by preserving and even worsening the EU's capability-expectations gap. Since the challenges of the EU make the socio-economic innovation ecosystem pervaded by a great deal of uncertainty, there is a need for a contingency aware governance to better coordinate between common tools in supporting resiliency (shock absorption, risk sharing) and incentive regimes such as the markets to foster fiscal and financial stability (risk reduction).

Bearing in mind the nature of the European integration, our paper can by no means offer the full panoply of policy perspectives to be considered by EU level governance and national leaders. Still, and beyond the usual suggestion of 'complete the internal market', by extending our earlier findings on the general vectors of disorientegrative (*Kovács, 2018a*), our current paper conveys at least six intertwined and mutually reinforcing *potential principles of reversing the European disorientegrative forces* in a more detailed manner.

1) *Festina lente*: Since the European integration has weakened the democratic sovereignty of the member states by creating a chasm between far-reaching economic integration and limited political integration, the principle of *festina lente* (make haste slowly) is in order when it comes to further European integration (enlargement and deepening). Bearing in mind the complex set of issues behind secular disorientegrative, the need for an ever-closer union is obvious but with meticulously considered steps that are (i) rehabilitating the delicate balance between national and European level governance, and (ii) offering *learning while doing* and positive *psychic capital* to gain continuous support for the European integration project.

2) *Value-congruent governance – Fairness and equability*: beyond the peace-holder role of the European integration, one of its main objectives is pursuing human well-being. Keeping in mind the current context, and the need to revive and strengthen interpersonal and institutional trust, Europe should do more to serve as a sanctuary of a more equitable distribution of economic prosperity if for no other

share was close to 10% in both regions in 1980, it increased merely up to 12% in 2016 in Western Europe, while the US share became 20%. Consequently, albeit the European innovation system has been spectacularly outperformed by the US, the European continent has been experiencing lower level of worsening inequalities.

³⁸ *Once the financial sector served the real economy, it is now a parasite of the real economy; previously, if employment expanded, average wages had risen or at least public revenues were increasing, and this trend cannot be identified today; once productivity increased, it was accompanied by wage growth, it is not necessarily true today (e.g. just take a mere glimpse onto the case of the UK of which GDP grew during 2007 and 2015 while the real wages contracted perceptibly).*

reason than the political slogan of “bolstering socially inclusive economic development” has now completely emptied. To this end, instead of completely eradicating all inequalities, contingency governance shall reconsider the paradigm of expanding the welfare state by refining its focus on widening the opportunities of individuals to excel in personal and professional developments (*equability*) in reducing the culture of entitlements and to fasten talent development for a more healthy innovation ecosystem. Putting fairness and equability onto the policy agenda can happen in many ways. For instance, fostering and supporting the evolution and diffusion of relevant movements like the *Economy for the Common Good* can be a great way forward pursuing integrity, responsiveness, fairness etc. Potential institutional instruments in that direction can be the pro-active cooperation among independent monetary and fiscal policy institutions and unbiased consulting experts with the aim at being a regulatory conscience by analysing inexorably the nexus between governmental measures/policies and fairness/inequality.

3) *Broadened complexity aware governance*: Encoded disorientation directs toward a *governance* which is not in denial vis-à-vis our complex innovation ecosystem characterised by uncertainty, non-linearity, unpredictability and emergence. Contingency governance has at least the following constituent sub-principles.

- *Systemic thinking is a must*: to address the dynamic configuration of processes related to disorientation in the EU or secular stagnation as an endogenous phenomena. For instance, by taking into account the features of our current ICT-based, services dominated techno-economic paradigm; or by incorporating the effects of planned policies and measures on inequality all the time (e.g. how the Capital Markets Union will affect income and wealth inequalities in countries etc.).³⁹ In addition, establishing a parliamentary committee – in each Member States and in the European Parliament – for the future to initiate a dialogue on major future problems and opportunities in recognising important political themes at an early stage by outlining alternatives and different policy lines is of key interest as well (e.g. regarding the impacts of radical technological change on democracy, on political structure, on many levels on human beings such as inequality and the future of work etc.).
- *Acknowledge our limited knowledge and policy horizon*: it credits Harry S. Truman’s words, namely that experts do not like to be seen to require any additional learning since it would be equal to admitting that they were previously not those experts the public can build on. In the era of immediacy, policy is expected to follow arousing tensions and crises in due time but it is impossible. Expecting adequate and one-shot policy solutions from national and EU-level governance to certain wicked problems is a naïveté highly resembling to the fatal conceit of Andrej Aleksandrovič Ždanov, the former soviet politician, who once ordered artists to create masterpieces. Consequently, there is no and will not be any buildable supermodel transferable to every member states. Social learning ability still remains the stove of any socio-economic development by accepting that blossoming quantification can misguide and distort our evaluations over the effectiveness of various policies in tackling complex challenges and interpretations over socio-economic phenomenon. Contingency governance is therefore not to pursue quantophobia, i.e. the excessive reliance on hard numerical statistics, but to incorporate the qualitative aspects in a more vigorous way (e.g. the effects of innovation in the public sector shall be primarily found in well-being enhancing qualitative aspects; when it comes to fostering inclusiveness, the concept to measure poverty shall be refined because of its shortcomings⁴⁰). Moreover, quantophobic behaviour can be a camouflage in the financial sector-real economy context as well in the sense that financial sector does not lend enough financial ammunition for those innovative ideas that are new, but are still initially raw and poorly understood. This way, a bias toward more quantified

³⁹ As Alstadsæter et al. (2017) pinpointed, tax evasion for the rich is easier when they have access to advanced wealth concealment services whereby they are able to conceal assets and investment income abroad. An integrated Capital Markets Union will spark those services by potentially exacerbating inequalities in countries.

⁴⁰ For instance, global poverty lines multiplied by PPP – a method the World Bank, the Sustainable Development Goals are using – do not capture the differences in the cost of living between cold and warm countries etc. The realistic standard error for global poverty can even be 200 million! See: Deaton and Dupriez (2011).

and well established ideas of older vintage exists, however economic history exemplified that new and more risky ideas spur subsequent inventions more frequently.⁴¹

- *Experimentalism and empowerment without chasing a utopia*: such contingency government is, by its very nature, deliberately experimental and is to empower the citizens with the aim at accelerating mistakes and the learning process from them. Once the principle of *festina lente* is hold, shifting toward a more political union, toward a more federal-like system is more likely by offering more room for member states to learn from each other more quickly about policies and measures targeting the kick-start of productivity growth together with a socially more inclusive European knowledge economy (e.g. popular referendums, citizen initiatives, pursuing digital platforms as hybrids of direct democracy and representative democracy when it comes to forming and initiating government actions in a co-written way). This is the point where the *cross-sectoral* and *cross-actor* mind-set must appear. Complexity-aware collaboration to share risk and responsibility is not primarily an option, but a coercive necessity in addressing complex challenges and to cultivate the evolvement of a European faith community *via* preserving some diversity to guarantee some unity. The impression about and the reality of limited discretionism, which is less likely to dismantle the trust infrastructure, can be safeguarded by building more on collaborative participatory mind-set, especially in turbulent times pervaded by uncertainties. However, our complex system together with our limited understanding of it puts a question mark over the effectiveness of such participative governance which can easily become just a utopia. Albeit some argue that Europe needs more democracy, it might intensify disorientation because there are no clear-cut answers and objective consensual opinions in the wider public over complex issues (e.g. BREXIT voting). For this reason, democratic deficit shall be mitigated *via* feeling the pulse of the citizen opinion without triggering negative impetus on governance and integration. For instance, the introduction of participatory budgeting in the digital age can be a good way forward as an antidote to right wings populism (i.e. state captured by corrupted elite) and to dampen the discontent against globalisation (i.e. participative budgeting means discussing budget-related issues with citizens on public service delivery when it comes to prioritising amongst different options).⁴²

4) *The vast majority comes first*: EU governance must continuously demonstrate that it intends to act in the interest of the vast majority of EU Member States. The real socio-economic development throughout the becoming EU – i.e. creating conditions for the realisation of human personality – rests upon our ability to stimulate synergies by influencing the dynamic relationship between core countries and peripheral ones. In this respect, two sub-principles are in order.

- *Grounding differential diagnoses*: establishing the culture of differential diagnoses in a more dedicated way in policymaking and crisis management across the EU (e.g. fiscal consolidations with different functions in core and periphery countries) is of paramount importance. This might also dampen the culturally strongly influenced disorientation in the EU. It would feed into the increased experimentalism by acknowledging that no mere supranational governance mechanism featured with one-size-fits-all policies and programmes could address and solve the complex European disorientation.

⁴¹ Packalen and Bhattacharya (2015) illustrated that in case of the US based on the text of nearly every US patent granted during 1836-2010. The European R&D statistics also lend support to the higher risk-aversion on the one hand, and the fiscal incapacity of national public finances to support R&D&I via fiscal incentives (as Eurostat (2016b) shows, the R&D target of the Europe2020 strategy has not been approached, the progress was more limited in the period 2008-2015).

⁴² For example, participative budgeting influences prevailing priorities and re-configures the mind-set of resource allocation according to the perceived and expressed needs. In numerous cases, it contributed to the process of placing customers' preferences into the forefront, since it resulted in non-negligible changes in the priorities followed by municipal government. Participatory budgeting can serve as a mechanism for improving the learning curve because of the potentially higher quality of feedback circle. See: Kovács (2012). What is more, participatory budgeting shall be embedded into a wider insurance scheme against lax fiscal governance and corruption (i.e. in case of fiscal laxity or detected corruption, transfers shall be channelled from public administration towards value-congruent investments juxtaposed in a list to be selected via participatory mechanism as priority making, hence strengthening democracy).

- *Cultivating internal commitment*: importantly, despite the unimpeachable and well-documented fact on disparities among already in and accession countries, the main culprit was predominantly related to the lack of internal national commitment to stimulate structural change in line with the requirements of sustainable growth and development after the accession. Success after accession always depended and still relies on good governance with efficient institutional architecture embedded into the wider innovation eco-system. An important implication is that addressing structural weaknesses at national levels cannot be bypassed even by creating fiscal federalism at EU level with its transfer system. Ameliorated economic freedom as well as improving innovation ecosystem at national levels shall be paradoxically enforced more directly by supranational interventions. The task is to eliminate the almost entirely *missing fear from fear* (instabilities, imbalances, so, from deterring sanctions) in the Eurozone and in the entire European Union as well (i.e. imposing sanctions if needed in accordance with the article 126(8) of the Treaty on the Functioning of the European Union; winding up the illusion of cheap money – providing developing funds in a pulse basis rather than permanently(!); going beyond intergovernmentalism when needed, but pursuing no-bailout principle⁴³).

5) *Fostering competency, openness and future orientation in European governance*: EU governance shall be competent and effective, and be able to select a viable sustained-growth strategy which includes the mentioned elements. In this regard, trust and confidence of EU citizens must be re-established and strengthened. It can be achieved through at least two sub-principles.

- *Catalysing mission orientation to signal the ability of EU policy in reinvigorating growth*: encoded disorientation might also offer game-changing opportunity. Growing uncertainty might lower the political costs of reforms – reforming not only the financial and fiscal, but that of the institutional architectures⁴⁴ – because the voters are more likely to accept that the outcome starts to depend on the weaving relations of various external processes and not mainly (only) on the governmental actions. Therefore, higher uncertainty and greater macroeconomic volatility (recessionary periods with grand challenges) can be conducive to brake the gravitational forces indicated earlier by making reforms to be politically more viable (e.g. mission 1: harmonising the real economy and the financial sphere by fostering positive green finance to address unsustainable credit consumerism and consumption patterns to transform the economic model via breaking secular stagnation; mission 2: reducing the ever-widening gulf of inequality, while to take into account environmental constraints etc.). Of course, it should be in tandem with regulation and monitoring of the financial/banking sector⁴⁵, and we should be modest in our hopes, as Blanchard (2013) put it.
- *Increasing trust through better public services*: enormous challenges associated with this autochthonously increasing fundamental uncertainty call for good governance and innovative public sector capable of signalling its ability to cope with the challenges by creating and maintaining necessary trust. Even though the Great Recession seems to be transmogrified into a slow and rather frail recovery, uncertainties and potential uncertainties have to be diminished by increasing the legitimacy of public intervention at national levels. This is in line with the *festina lente* principle described above that would consist of growth-friendly fiscal consolidations and public sector

⁴³ As the Greek case illustrates, the key to the development of Greece can be the sobering, master role of integration, which has already started by the EU actually taking over the role of governance. ESM (European Stability Mechanism) means a fiscal puffer, but not for member states letting their public finances facing continuous indebtedness. This is in line with the recommendation of German Council of Economic Experts (2013) on Maastricht 2.0.

⁴⁴ Recently, more and more studies and concept papers have been published on the future of Europe. With respect to the big issue of „how” to reinvigorate the European integration see Bénassy-Quéré et al. (2018), while on the more intriguing questions of „who” and „when” to unlock synergetic integration, see: Campos and Sturm (2018).

⁴⁵ For instance, in the spirit of the famous latin question of „*Quis custodiet ipsos custodes?*” (Who watches the watchmen?), financial sector’s regulation should refine the roles of monitoring/auditor companies being in monopoly position to take better care of their monitoring in fulfilling their original goals that were not considered particularly important before the 2008 financial crisis. On the role of auditors/accountants in the crisis, see: Brooks (2018).

innovations (PSI).⁴⁶ Public sector should serve as a demonstrator being in conjunction with an approach that cultivates innovation, and eventually tries to address as well as alleviate wicked problems. PSI can be regarded “[...] as the process of generating new ideas and implementing them to create value for society, covering new or improved processes and services” (*European Commission, 2013:7*). PSI may help to maintain the quality of service provision, to reduce excessive expenditures while not imposing additional burdens on labour and the economy as a whole by fostering trust building in time when painful measures (e.g. fiscal adjustments, structural reforms) are inevitable. PSI thus becomes a mechanism towards increasing the *quality of governance* across the board.

6) *Live in details, think in details by building on complexity economics*: since European disorientation is a result of the interplay of complex global (and European-wide) and national (member states) vectors, a pious wish is not enough to frame and ground contingency governance. Governance cannot be based on generalities but on the continuous discovery and understanding of the reality in detail. Two sub-principles are arising in this respect.

- *Progressing toward complexity economics*: economics profession shall go beyond the practice of considering more complex phenomena as incidental addenda to economic engineering and theorising. This is the point where the *cross-disciplinary mind-set* must appear. Contingency governance shall acknowledge the complexity of the socio-economic innovation ecosystem and the fact that policy outcomes are not mathematically described economic ones, but complex patterns. Complexity must be addressed since it forces economics and policymakers to be more humble by not condemning ambivalence. Without pursuing a complexity based economic approach⁴⁷, without acknowledging individual and system-wide interactions (at least most of them), European economic governance and its macroeconomics backing may indeed be doomed and policies tend to fall short in becoming the instruments of a sustainable development value-congruent governance and what any kind of governance will have is just a cacophony of ideas that are nothing more than a theatre of empty rhetoric.
- *Refining approaches to education and skills*: the current entire education concept is worth reconsidering and refocusing in the era of knowledge economy (emerging digital economy including the development of the new production revolution, that is to say, Industry 4.0) when learning and work become one and schools must be the voice of the future. Such approach can embrace not only a more pluralistic education system (including teaching of economics science at universities⁴⁸) cultivating *cross-sectoral, cross-actor and cross-disciplinary mind-set*⁴⁹, but also the more organic introduction of various techniques such as new and innovative peer-to-peer learning programmes without decisive curricula; tri-partite co-creation projects to addressing challenges rather than solving them once and for all; voucher-based systems, cooperation with the business sector to co-develop more pleasant work in an era of going digital and robotization etc. Since most people tend to believe that something is true or false, modern skills and complexity aware knowledge-based education may help in overcoming such reductionism by suggesting to people that pluralism and ambiguity are in order, hence they might get a more realistic picture about the difficulties of economic governance. In this way, the demand side of economic governance, that is to say, citizens might show higher level of tolerance against economic governance in an era of perplexingly intertwined complex challenges by feeding into increasing trust in the public sector and in contingency governance.

⁴⁶ For more on public sector innovation, see Kovács (2012).

⁴⁷ For a more detailed discussion on complexity economics, see Kovács (2018b – forthcoming).

⁴⁸ See more: Csaba (2018).

⁴⁹ In concordance with the messages of outstanding pedagogues like Paulo Freire (1970), who was a real proponent of an inter-active education system which is to motivate critical thinking and curiosity, a way towards recognising complexity. His thinking is of high relevance today when all forms of increasing inequality is observable even in the developed world.

In the introduction we cited Milton Friedman, by paraphrasing his famous words, our work conveys that there is no such thing as free governance and value-free economics, either. In following our line of thinking, and more than 65 years after Friedman's essays on positive economics⁵⁰, it has become vital by now that the economics of contingency governance should be normative and value-based. And surely, we should be more modest in our hopes.

⁵⁰ See: *Friedman (1953)*.

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